

## Message Text

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TAGS: ECIN, YO

SUBJECT: BIJEDIC ON 1975 ECONOMIC TRENDS AND 1976 PLANS

REF : BELGRADE 5747

SUMMARY: YUGOSLAV PREMIER BIJEDIC IN NOVEMBER 4 PRESENTATION OF DRAFT RESOLUTION ON 1976 SOCIAL AND ECONOMIC DEVELOPMENT FOUND SILVER LINING IN MOST THIRD QUARTER 1975 TRENDS. LARGE SCALE PUBLIC ACTION BY LCY CREDITED FOR THIS IMPROVEMENT, BUT BIJEDIC, IN SEVERAL CHEERLEADING PASSAGES CAUTIONED AGAINST LET UP IN STABILIZATION EFFORTS. BASIC OBJECTIVES FOR 1976 ARE REALIZATION OF EFFECTIVE STABILIZATION POLICY AND MAINTENANCE OF YUGOSLAV EXTERNAL LIQUIDITY AT EXISTING LEVEL. 1976 GOALS WERE NOT QUANTIFIED BUT GREATER ATTENTION TO PRIORITY SECTORS IN INVESTMENT AND PRODUCTION POLICIES SEEM TO BE IN THE CARDS, WITH CONTINUE TINKING IMPORTS TO EXPORT TO CONTROL TRADE DEFICIT, MORE ACTIVE PRICE POLICY TO SLOW INFLATION AND STRONGER EFFORTS TO RESTRAIN GROWTH OF SOCIAL AND PUBLIC EXPENDITURES.

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A. FOREIGN TRADE

A. 1975 TRENDS

YUGOSLAVIA'S IMPORT RESTRICTIONS HAVE APPARENTLY CONTROLLED GROWTH OF FOREIGN TRADE DEFICIT. OCTOBER WAS FOURTH CONSECUTIVE MONTH IN WHICH 1975 MONTHLY TRADE DEFICIT WAS SMALLER THAN SAME MONTH 1974. AS RESULT, 1975'S 10-MONTH TRADE DEFICIT IS SLIGHTLY SMALLER THAN 10-MONTH 1974 DEFICIT (AFTER 7 MONTHS, DEFICIT WAS 14 PERCENT LARGER). BIJEDIC ALSO SAID OCTOBER SAW STRONG EXPORT GROWTH INCLUDING EXPORTS TO CONVERTIBLE MARKETS. HOWEVER, HE GLOSSES OVER ARTIFICIAL IMPACT THAT ADMINISTRATIVE DELAYS IN ISSUING SPECIAL IMPORT PERMITS MIGHT HAVE HAD IN TRADE DEFICIT IMPROVEMENT.

B. 1976 POLICY

LOOKING AHEAD TO 1976, BIJEDIC TERMED EXPORTS ONE OF CENTRAL TASKS OF COUNTRY'S DEVELOPMENT POLICY AND INDICATED YUGOSLAVIA WILL ATTEMPT STIMULATE EXPORTS THROUGH MEASURES TO INCREASE COMPETITIVENESS OF YUGOSLAV GOODS, PROVIDE BETTER CREDIT FACILITIES, AND TO REORGANIZE YUGOSLAV FOREIGN TRADE FIRMS. IMPORTS IN 1976 WILL BE LINKED TO EXPORTS, ALTHOUGH PERHAPS IN A DIFFERENT ADMINISTRATIVE MANNER THAN IN 1975. BIJEDIC SAID YUGOSLAVIA WILL NOT PLAN IN ADVANCE THE VALUE OF 1976'S IMPORTS BUT WILL COORDINATE NEXT YEAR'S IMPORTS WITH REALIZED EXPORTS AS YEAR DEVELOPS. HE WARNED THERE IS NO RIGHT TO IMPORT THAT IS NOT ACCOMPANIED WITH OBLIGATION TO EXPORT.

2. INFLATION

A. 1975 TRENDS

BIJEDIC SAW SOME BRIGHT SPOTS ON PRICE SIDE. RETAIL RICES AND COST OF LIVING IN THIRD QUARTER INCREASED AT SLOWER RATES THAN IF FIRST HALF 1975 AND RATE OF GROWTH OF PRICES OF INDUSTRIAL PRODUCTS HAS DECELERATED FOR FOUR CONSECUTIVE MONTHS.

B. 1976 POLICY

BIJEDIC SAID TIME HAS COME WHEN YUGOSLAVIA MUST REALIZE SLOWING INFLATION IS ESSENTIAL TO IMPROVE COMPETITIVENESS AND QUALITY OF ECONOMY. HE INSISTED 1976 PLANS WILL NOT INCLUDE "ANTICIPATED INFLATION" AND ADDED ENTERPRISES WILL NOT BE ALLOWED TO RAISE PRICES IN ORDER FINANCE NEW INVESTMENT (THIS CONFIRMS COLANOVIC'S COMMENTS TO AMBASSADOR REFTEL). (FYI: A KNOWLEDGEABLE GOY ECONOMIC OFFICIAL TOLD EMBASSY YUGOSLAVIA IN 1976 INTENDS TO CUT RATE OF INFLATION IN HALF BUT WILL NOT PUBLICLY STATE THIS AS GOAL. LIMITED OFFICIAL USE

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GOVERNOR OF NATIONAL BANK COLANOVIC SAID MONEY SUPPLY IN 1976 WILL GROW ABOUT 19 PERCENT CONTRASTED WITH 26 PERCENT IN 1975. END FYI)

3. INVESTMENT

A. 1975 TRENDS

BIJEDIC INDICATED GROWTH OF CAPITAL EXPENDITURES IS BEGINNING TO DECELERATE BUT SAID THE STRUCTURE OF NEW INVESTMENT IS STILL

NOT SUFFICIENTLY CONCENTRATED IN COUNTRY'S PRIORITY SECTORS AND, INDEED, ON SPECIFIC PROJECTS.

B. 1976 POLICY

INVESTMENT POLICY IN 1976 MUST BE HARMONIZED WITH COUNTRY'S DEVELOPMENT NEEDS AND REALITIES OF BALANCE OF PAYMENTS CONSTRAINTS. (BIJEDIC PROBABLY DID NOT GO BEYOND GENERALITIES IN DISCUSSING INVESTMENT POLICY BECAUSE YUGOSLAVIA HAS ALREADY ADOPTED SEVERAL MEASURES TO CONTROL AND CHANNEL NEW INVESTMENT. NATIONAL BANK OFFICER TOLD EMBASSY ALREADY ADOPTED INVESTMENT MEASURES SHOULD BE SUFFICIENT TO ACHIEVE INVESTMENT GOALS AND IN FACT MAY BE TOO STRONG AND REQUIRE SOME EASING IN 1976).

4. INDUSTRIAL PRODUCTION

1975 TRENDS

A. ACCORDING TO BIJEDIC, PRELIMINARY DATA FOR OCTOBER SHOW MILD UPTURN IN GROWTH OF INDUSTRIAL PRODUCTION. THIS, COMBINED WITH INCREASED EXPORT ORDERS IN OCTOBER, HOLDS HOPE FOR REVERSING MID-YEAR TENDENCIES TOWARD STAGNATION IN PRODUCTION. (BIJEDIC MAY BE OVERLY OPTIMISTIC IN THIS AREA SINCE INVENTORIES ARE STILL VERY HIGH IN MANY INDUSTRIES, AND NEITHER DOMESTIC NOR EXPORT DEMAND HAS REVIVED MARKEDLY.)

B. 1976 POLICY

BIJEDIC EMPHASIZED IMPORTANCE OF ACCELERATING PRODUCTION GROWTH IN EXPORT AND IMPORT SUBSTITUTION INDUSTRIES. IN 1976 NEW CONSTRUCTION PROJECTS MAY BE REQUIRED TO USE YUGOSLAV-MANUFACTURED EQUIPMENT TO A GREATER EXTENT THAN PREVIOUSLY, AND BIJEDIC SAID THERE SHOULD BE NEW FACILITIES FOR CREDIT SALES OF YUGOSLAV EQUIPMENT AND SHIPS TO DOMESTIC PURCHASERS. FOOD PROCESSING AND APARTMENT CONSTRUCTION ARE AREAS WHERE GROWTH SHOULD BE EMPHASIZED. (RECENT VISITS BY EMBOFF AND EXIMBANK OFFICIAL CONFIRM INCREASING ATTENTION BEING GIVEN TO FOOD-PROCESSING OPPORTUNITIES, ESPECIALLY IN MACEDONIA AND VOJVODINA). BIJEDIC SOUNDED WARNING NOTE FOR SOME CONSUMER-GOODS INDUSTRIES THAT ARE HEAVY USERS OF LIMITED OFFICIAL USE

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IMPORTS AND THAT ARE PILING UP INVENTORIES OF UNSOLD PRODUCTS, SAYING ECONOMIC POLICY SHOULD NOT ENCOURAGE EXPANSION OF INDUSTRIES THAT HAVE NO MARKET.

5. SOCIAL AND PUBLIC EXPENDITURES

1975 TRENDS

A. NO SILVER LINING HERE. BIJEDIC CONFIRMED THAT GROWTH OF PUBLIC AND SOCIAL REVENUE EXPENDITURES ARE STILL IN EXCESS OF AGREED-UPON LIMITS DESPITE EFFORTS TO HOLD THEM TO THOSE LIMITS. BIJEDIC INDICATED FURTHER ACTION WILL BE NECESSARY IN THIS AREA BEFORE YEAR END.

B. 1976 POLICY

THE ECONOMY MUST BE PROTECTED AGAINST UNREASONABLY LARGE DEMANDS FROM THE SOCIAL/POLITICAL COMMUNITIES IF YUGOSLAVIA'S DEVELOPMENT GOALS ARE TO BE ACHIEVED. BIJEDIC IMPLIED A SERIOUS

EFFORT MUST BE MADE TO CONTROL THE GROWTH OF PUBLIC EXPENDITURES IF THE ECONOMY IS TO HAVE SUFFICIENT FUNDS TO INVEST AND GROW.(GOVERNOR OF NATIONAL BANK COLANOVIC TOLD AMBASSADOR THAT GROWTH OF SOCIAL PUBLIC EXPENDITURES IN 1976 SHOULD BE HELD TO ABOUT 12 PCT. THIS CONTRASTS WITH GROWTH IN 1975 OF ALMMZT 40 PERCENT).

6. FEDERAL BUDGET

IN DISCUSSING DRAFT FEDERAL BUDGET IN 1976 BIJEDIC ANNOUNCED THE TWO DEFICIT ITEMS--(A) BORROWING FROM NATIONAL BANK AND (2) ISSUANCE OF FEDERAL BONDS--ARE NOT INCLUDED. HE SAID DEFICIT ITEMS ARE DROPPED BECAUSE THEY DRAW RESOURCES AWAY FROM THE ECONOMY SINCE NATIONAL BANK CAN USE MONEY TO FINANCE PRODUCTION, AND BOND PURCHASERS ARE MAINLY COMMERCIAL BANKS THAT CAN USE SAME FUNDS TO CREDIT ENTERPRISES. RESULT THIS CHANGE, BIJEDIC ADMITTED, IS TO REQUIRE INCREASED CONTRIBUTIONS FROM REPUBLICS AND PROVINCES. HIS COMMENTS ON 1976 BUDGET CENTERED ON IMPORTANCE OF NATIONAL DEFENSE, ESPECIALLY NECESSARY TO MODERNIZE AND UPGRADE THE JNA. (FYI: FEDERAL BOND SALES HAVE NOT BEEN SUCCESSFUL IN 1975 AND NATIONAL BANK HAS LONG BEEN UNHAPPY WITH OBLIGATORY LENDING TO FINANCE DEFICIT. END FYI)

7. BIJEDIC IMPLIED SOME NEW ECONOMIC POLICIES MAY BE IN THE WORKS. HE SAID, "WORK IS PROCEEDING INTENSIVELY ON AN ECONOMIC STABILIZATION PROGRAM, THE CRITERIA OF WHICH SHOULD BE BUILT INTO ALL DEVELOPMENT PLANS AS WELL AS INTO THZO CORRESPONDING INSTITUTIONS OF THE ECONOMIC SYSTEM." ADDITIONALLY, HE NOTED PROCEDURES FOR ADOPT-LIMITED OFFICIAL USE

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ING NEW SOCIAL ACCORDS IN THE AREAS OF PRICES, BALANCE OF PAYMENTS, PUBLIC EXPENDITURES AND SOCIAL SERVICES WILL BEGIN IN NOVEMBER. SILBERMAN

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